

stock of the Reconstruction Finance Corporation and the Federal land banks. Receipts were about \$238,000,000 less than estimated.

REVENUE ACT OF 1932

In his annual report to the Congress for the fiscal year 1931 the Secretary of the Treasury recommended "a vigorous and continued effort to reduce expenditures," and increased taxation with a view to bringing into balance current receipts and current expenditures, exclusive of the sinking fund and other statutory debt retirements.

The Treasury's revenue program was based in the main upon a return in principle to the general plan of taxation existing under the revenue act of 1924.¹ The increased income taxes recommended were to be made effective on incomes for the calendar year 1931 so as to yield additional revenue in the last half of the fiscal year 1932 and during the whole of the fiscal year 1933. The Treasury's program also included revision of the postal rates to meet a greatly increased postal deficit.

The President's Budget message, submitted at the same time, recommended a reduction of approximately \$370,000,000 in expenditures.

In view of the very unusual situation, the Secretary of the Treasury stated on January 13, 1932, on his first appearance before the Ways and Means Committee, that at a later date he desired to submit revised estimates of revenue. These were submitted to the Ways and Means Committee in February. At that time it was estimated that additional taxes, over and above those recommended earlier in the year, would be necessary and that there must be a further reduction in expenditures. Supplemental recommendations were made by the Treasury accordingly.¹

Early in March the Ways and Means Committee reported to the House of Representatives a revenue bill, the principal features of which were increased income taxes, first applicable, however, to 1932 rather than to 1931 incomes; an increased estate tax; a gift tax; and a general manufacturers' excise tax based on the Canadian model. The Secretary of the Treasury at once indorsed this bill and gave it his full support. It was not accepted by the House of Representatives, however, and in lieu of the general manufacturers' excise tax, the House adopted a series of special manufacturers' excise taxes.

The Senate did not dispose of the revenue bill until early in June. In the meanwhile business conditions had grown steadily worse and it was apparent that the estimates made by the Treasury Department of what might be expected in the way of revenue during the fiscal year 1933 could not be realized.

¹ Exhibits containing the Treasury's original and subsequent proposals appear on pages 270 to 271 and 274 to 275 of this report.

On May 31 the Secretary of the Treasury appeared before the Senate Finance Committee and stated that it would be necessary that the bill provide for \$1,125,000,000 of additional revenue. This was the same amount recommended to the Ways and Means Committee in February, though it had become clear that the measures then recommended would not produce this amount of additional revenue. He also stated that in addition it would be necessary to provide by legislation for further reduction of expenditures by not less than \$350,000,000 below the Budget estimates of December.

The statement reads in part as follows:

The Treasury recommended in February \$1,125,000,000 in new taxes. That is the amount needed to-day.

The bill now before the Senate, even with the Finance Committee items still to be voted on, will bring in but \$840,000,000, as compared with the \$965,000,000 estimated under the old figures. Thus there is a shortage of revenue between the amount originally estimated by the Treasury as necessary and the yield of the bill as it now stands of \$285,000,000. * * *

In other words, assuming that the expenditure figures are reduced below those submitted in the Budget Message by not less than \$350,000,000, \$285,000,000 of additional revenue is needed to-day to balance the Budget. In order to bridge this gap, I unqualifiedly recommend turning to the manufacturers' excise tax along the lines of Senator Walsh's pending amendment. While the Treasury Department has hitherto refrained from recommending this tax, I had occasion to give it close study during its consideration by the Ways and Means Committee and I unhesitatingly indorse it to-day as the most effective means of balancing the budget and giving assurance of yielding the needed revenue.

In December, 1931, the Budget for the fiscal year 1933 was submitted with total expenditures at \$3,958,000,000, exclusive of the postal deficit which was intended to be covered by the postal provisions of the revenue act and other postal legislation. The reduction of this total by \$350,000,000 would have resulted in expenditures aggregating \$3,608,000,000. Expenditures for 1933 are now estimated at \$4,135,000,000, excluding the postal deficit. This estimated total, which includes certain items of additional public construction provided for in the emergency relief and construction act, approved July 21, 1932, is thus about \$527,000,000 larger than the proposed total of expenditures on which the recommendations of the Treasury on May 31 were based.

Summary of provisions of the act

The revenue act of 1932 provides for the following increased and new taxes:

(1) Increase in the corporation income tax rate from 12 to 13% per cent, with an additional tax at three-fourths of 1 per cent on corporate net income for the years 1932 and 1933 reported on consolidated returns, and with no specific credit for corporations with small incomes.

(2) Increase in the normal rates on individual income from 1½, 3, and 5 per cent to 4 and 8 per cent; elimination of tax credit for earned income; reduction in personal exemptions from \$3,500 and \$1,500 to \$2,500 and \$1,000 for married persons or heads of families and single individuals, respectively; surtaxes graduated from 1 per cent on net income in excess of \$6,000 and not in excess of \$10,000, up to 55 per cent on net income in excess of \$1,000,000; and other income tax changes, the most important of which limits the deduction of losses from sales or exchanges of stocks and bonds held for a period of two years or less to the amount of gains derived from similar transactions with provision for a one-year carry-over, with certain limitations, of the excess of such losses over such gains for a given year.

(3) An additional tax on estates at graduated rates, with an exemption of \$50,000, the additional tax to be paid to the Federal Government without tax credit for payment of State inheritance taxes; and a gift tax at rates graduated up to 33½ per cent on net gifts in excess of \$10,000,000 with an exemption of \$50,000.

(4) Manufacturers' excise taxes on numerous articles, including lubricating oil, brewer's wort, automobiles, trucks, parts and accessories, tires and inner tubes, gasoline, candy, chewing gum, soft drinks, jewelry, toilet preparations, furs, domestic and commercial consumption of electricity, radios, mechanical refrigerators, sporting goods, and cameras.

(5) Other miscellaneous taxes, including new and increased stamp taxes, increased taxes on admissions, and new taxes on telephone, telegraph, cable, and radio messages, checks, leases of safe deposit boxes, transportation of oil by pipe line, and the use of boats.

(6) Increases in postal rates.

Increased income taxes were made effective on incomes for the calendar year 1932, instead of the calendar year 1931 as proposed by the Treasury. The manufacturers' excise taxes and the other miscellaneous taxes became effective 15 days after the signing of the act, that is, on June 21, and are limited in application to the period ending June 30, 1934, with the exception of the taxes on passenger automobiles, trucks, parts and accessories, and tires and tubes, which taxes remain effective until the end of the subsequent month, and of the gasoline tax which is levied for one year only, that is, until June 30, 1933.

At the time of its enactment it was estimated that the new revenue act would yield \$1,118,500,000 of additional revenue for the fiscal year 1933, including additional postal revenue of \$160,000,000 which would be reflected in a reduction in the postal deficit and consequently in total expenditures. (See Exhibit 27, page 277.)

The revenue act of 1932 effected one of the largest increases in taxes ever imposed by the Federal Government in peace times. In a year in which the enactment of any new revenue measure presented

grave difficulties, the placing on the statute books of an act so substantial in scope was an impressive achievement.

Viewing the act in relation to the emergency situation which made it necessary, there are a number of major accomplishments which result from it, aside from the provision of substantial additional revenue. These include the broadening of the base of the individual income tax through reduction in personal exemptions; the limitation of deductions from gross income on account of losses from sales of stocks and bonds held for two years or less; the closing of loopholes in certain other administrative provisions of the income tax law; and the inclusion among the new taxes of certain taxes which are levied on a relatively broad base and will yield relatively large amounts of revenue with little administrative cost. There are a number of features of the act which were not in accordance with the Treasury's views. These include the application of a discriminatory rate to corporation income reported on consolidated returns, and the inclusion of a number of manufacturers' excise taxes yielding relatively little revenue and involving considerable administrative difficulty.

CONDITION OF THE FEDERAL FINANCES

At the end of the fiscal year 1932 the Federal revenues had been cut approximately in half as compared with the average receipts for the four years ended with 1930, and expenditures had been greatly increased by the vast program of emergency relief undertaken to meet the extraordinary circumstances with which the Nation was confronted. Thus the depression affected the Federal Budget very seriously, on both the expenditure and the receipt side. As a result, we closed the fiscal years 1931 and 1932 with large deficits.

Even so, the finances of the United States Government are in sound condition.

In the last session of Congress reduction in expenditures by no means proceeded as far as necessary, yet a beginning was made. At the same time a very real effort was made to bring the revenues of the Government up to the requisite level. Receipts from the new taxes during the first few months in which the new revenue act has been in effect have been disappointing, but on the whole there can be no doubt as to their productiveness when business activity rises to more normal levels. Moreover, it should not be forgotten that the new law does not become fully effective until after the close of the fiscal year 1933.

When Congress adjourned the position of the Budget had been greatly improved.

I must continue to urge, as the Treasury Department did a year ago, that the Budget be brought into balance at the earliest possible date. Yet the deficits of the years of depression should be considered